



Legislative Audit Division

Performance Audit Summary

Small Business Development Centers

January 2006

Introduction

The Small Business Development Center (SBDC) program provides business technical assistance through individual counseling and group training. Services are provided through a network of 10 regional sub-centers and the program is administered through a lead center based in the Montana Department of Commerce (the department). SBDC is a nationwide program and the Small Business Administration (SBA) is responsible for program administration at the federal level.

Audit work concluded the SBDC program is meeting its overall goals and provides benefits to businesses. The program is providing benefits to businesses receiving counseling services. We also concluded that private sector alternatives to program services are either unavailable or unaffordable. We did identify areas where the efficiency or effectiveness of program operations could be improved.

Background Information

SBDC was developed to provide small businesses professional counseling and training services they could not otherwise access or afford. Services are delivered through individual sessions with a SBDC counselor, or through group workshops organized by the regional sub-centers.

SBDC sub-centers are located in Kalispell, Missoula, Butte, Helena, Bozeman, Great Falls, Havre, Billings, Colstrip and Wolf Point. Nine of the host agencies are local economic development corporations and one (Kalispell) is a chamber of commerce organization.

SBDC is funded through federal, state and local (host agency) contributions. SBA makes an annual grant to the lead center. The annual grant amount is currently \$500,000. The total SBDC budget for 2005 was approximately \$1.4 million. The majority of the budgeted funds for the SBDC program in Montana are contributed by host agencies (47 percent), followed by the federal and state government contributions (35 and 18 percent respectively.)

SBDC Service Provision

We conducted a comparison group study to estimate what effects participating in the SBDC program has on client businesses. The comparison group study looked at changes in income and employment for two groups. The first group received SBDC counseling services and the second group received no assistance from the program. Using data from

the Department of Revenue and the Department of Labor and Industry, we tracked and compared growth in taxable business income and employment data for both groups.

Overall, the comparison group study shows the program is delivering benefits to participants. In terms of growth in annual taxable income and annual payroll per employee, participation in the program appears to provide small businesses in Montana with significant benefits.

Alternative Service Providers

The benefits provided by SBDC services are important, but the program must also be able to demonstrate that alternative programs or organizations cannot provide similar services and benefits or can do so at reduced cost.

Given the types of services generally offered by management consultants and the costs involved in retaining the services of specialized firms, it is unlikely SBDC functions would be provided solely through the private sector.

Public sector organizations, public-private partnerships, and non-profit groups also provide business technical assistance. Review of information from other providers showed each program or service has a specific mission, but in some cases there is not always a clear boundary established between SBDC resources and services and those of other providers. ***Despite overlaps in service provision, the program occupies a niche position and its services are not entirely replicated by any other provider.***

Program Compliance and Administration

As with all SBA-administered programs, SBDC operations are governed by federal regulations relating to the size of the businesses receiving assistance. To determine whether businesses participating in the Montana SBDC program meet size regulations, we reviewed program records. Eight of the fifteen businesses included in our review did not meet SBA business size regulations. ***Improving awareness of the SBA business size regulations among sub-center directors and lead center oversight of sub-center data reporting could prevent future occurrences of non-complying businesses accessing SBDC services.***

Comparison With Other States

All 50 states currently participate in the SBDC program and there are over 1,100 sub-centers in locations around

the country. Montana's SBDC network structure is consistent with the state's low population density and high land area as compared with other western states. Federal law establishes the distribution of funding to state SBDC programs and also sets minimum matching requirements for recipient organizations. When compared with other states, ***Montana has been effective in using host agency contributions to leverage state funding and increase resources available for SBDC program operations***

Counseling and Training Activities

SBDC counselors provide two primary services to clients; individual counseling sessions and group training events. Analysis of trend data for clients counseled between 1998 and 2004 showed that there has been a gradual decline in the number of clients counseled by the program. As the number of clients counseled has decreased, the average number of counseling hours per client has increased. We also analyzed training data for 1998 through 2004. There are clear trends indicating the number of events is increasing across the network. Discussions with SBDC counselors and staff indicate the program is using training events to screen for participants with more advanced business plans. As client workloads decline, counselors spend more time counseling individual clients. The Montana SBDC program is pursuing a strategy of reducing client workloads through time-intensive counseling and expanded training opportunities.

In general, sub-centers ensured training events were held in different communities around the service area. The exception to this trend was the Billings sub-center. ***The department should ensure cooperative agreements and host agency contracts address provision of training opportunities in outlying communities within SBDC service areas.***

The SBA and the SBDC program have identified outreach to veterans as a special emphasis initiative. Veterans comprise around 11% of the state's working-age population and around 10% to 12% of program participants. Audit work identified outreach disparities at the sub-center level in specific counties. ***Program managers should continue to monitor the effectiveness of outreach efforts targeting the state's veterans. In particular, the effectiveness of outreach efforts in larger cities should be subject to more detailed analysis to determine if the veteran population in these areas is being effectively served by the program.***

The other special emphasis initiative group is the American Indian population. Between 1998 and 2004, SBDC participation has declined by around 3 percent annually, but for residents of the state's Indian reservations, the decline is closer to 6 percent. Review of training records for 1998 to 2004 showed that efforts on some of the state's reservations have been inconsistent. By ensuring an enhanced training schedule is properly implemented for Indian reservations, the SBDC sub-centers may be able to raise awareness of the services and resources available through the program. ***Addressing how SBDC resources can help ongoing efforts to promote Indian economic development could clarify the***

program's role on reservations and relations with tribal and other technical assistance providers.

Economic Trends and SBDC Service Areas

The SBDC network is configured to deliver services to a specific population; the state's small business community. Economic growth in the state has not been even in recent years and counties experiencing significant growth are concentrated in the south and west of Montana. SBDC service areas have experienced varying growth rates in the number of business establishments. Three sub-centers (Missoula, Kalispell and Billings) have performed below the ideal level of client activity based on economic trends within their service areas. These sub-centers have served fewer clients than would otherwise be expected.

As measured against a projected client base, SBDC sub-centers in fast-growth urban areas are failing to maintain levels of activity sufficient to meet demand for services. ***To avoid difficulties in serving clients in growing areas, the department needs to adjust funding distribution and allocate resources to SBDC sub-centers based on prevailing economic trends within service areas.***

Program Outcomes Reporting

The program uses a performance measurement system to track both outputs and outcomes. As part of annual cooperative agreements with the SBA, targets are established for activity levels within each sub-center. The program's use of performance targets has been improving, but disparities still exist between target and actual performance data. ***Performance targets should be monitored to ensure they reflect changes in program conditions. Adjustments should be made in performance targets to ensure they are both realistically achievable and sufficiently challenging.***

We reviewed program procedures for verifying reported client outcomes and estimating economic impacts through surveys and other studies. Although the program takes a conservative approach to reporting outcomes, significant improvements are needed in verifying the validity of data. The program relies on 'good faith estimates' provided by clients to determine the outcomes attributable to SBDC services.

Improvements in data definition and reporting parameters have already been started through the SBA and the ASBDC. ***Continuing implementation of standardized outcomes data definitions and reporting parameters should improve the quality and reliability of reported outcomes data.***

For a complete copy of the report (05P-04) or for further information contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/css/audit/>